

"Shortchanged: Pension Miscalculations"

Hearing of the U.S. Senate Special Committee on Aging

Statement of Senator John B. Breaux, Ranking Member

June 16, 1997

I want to thank Chairman Grassley for holding this hearing today on an issue which deviates somewhat from our previous Aging Committee hearings. All of our hearings this year have focused on health care and programs like Medicare, Medicaid, and Social Security. But the issue our committee is examining today is no less important than health security as an issue for the aging population in this country.

It is really frightening that someone can retire and then discover that the pension they had counted on for years is not what they thought it was going to be. It is even more frightening that such cases often result from calculation errors on the part of employers. Given the complexity of pension rules, it is essential that we do a better job of convincing workers to educate themselves about their pensions so they don't come up short when they retire.

The fact is, we don't even know how widespread this problem is because we are only just beginning to hear from victims like the witnesses who will appear before the committee this afternoon. While it may be hard to accurately assess the true scope of this largely hidden problem, only a small number of workers affected is too many.

For every person affected directly, there are spouses, children, and other loved ones who also feel the economic effects of pension miscalculations. And since these mistakes can go back years, even decades, the financial bite can be severe. Even if someone's monthly pension is off by only a few dollars, that can mean a great deal when we're talking about health care copayments, prescription drugs and other costs associated with retirement.

The chairman and I have been focusing on finding long-term solutions to reform Medicare, Medicaid, Social Security and other retirement programs. I think we both agree that fundamental reform is vital if we are to preserve these programs for the baby boomers and beyond.

We have a ticking demographic time bomb that could explode unless we find ways to help more Americans save for their retirement. A recent survey released by the Employee Benefit Research Institute found that less than one-third of all Americans have even tried to calculate how much they need to have saved by the time they retire. And less than 20 percent said they are confident they will have enough money to live comfortably after they retire. The size of this demographic dilemma will only grow as the baby boomer generation retires and goes on Medicare and Social Security.

One component of our reform efforts is to make personal savings, pensions and Social Security the pillars of retirement planning. And what we've found is that a significant obstacle to increasing our personal savings is the lack of knowledge, resources and incentives to take advantage of the extensive benefits offered by our current retirement savings system. But if we expect people to take a more active role in their pension planning and savings, we have to also seek ways to ensure that calculations are done accurately and that mistakes are corrected. Otherwise, they won't have faith that what they earned is what they will get back in retirement.

As a small first step to defuse this retirement time bomb, I recently joined Chairman Grassley in introducing legislation to better educate the public about the importance of saving for retirement and encouraging far more private savings.

Our legislation, the "Savings Are Vital to Everyone's Retirement Act of 1997" (SAVER), would create an educational project to raise public awareness about personal savings. It directs the U.S. Department of Labor to maintain an ongoing program of education and outreach to the public.

As we move forward with structural reforms of Social Security and Medicare, we must also provide more Americans with incentives to better prepare themselves for retirement. Another benefit which can come from the successful passage of our SAVER bill is increased awareness of mistakes in pension calculations. These mistakes must be found and corrected if the goals of our bill are to be achieved and the recommendations of today's witnesses implemented.